

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE  
AND THE COUNCIL ON THE MALUTI-A-PHOFUNG LOCAL MUNICIPALITY**

**REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the consolidated and separate financial statements of the Maluti-A-Phofung Local Municipality and its entity set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statements of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts and the appropriation statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

**Accounting officer's responsibility for the consolidated and separate financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-general's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

**Property, plant and equipment**

4. The parent municipality did not review the residual values and useful lives and perform an impairment assessment of property, plant and equipment at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment* (GRAP 17) and GRAP 26, *Impairment of cash-generated assets*. I was not able to determine the correct net carrying amount of property, plant and equipment as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment, as the parent municipality did not provide me with a complete fixed asset register, documentation to support the cost prices of assets and evidence that all the requirements outlined in GRAP 17 were complied with. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment stated at R2 877 832 906 (2013: R2 884 735 475) and R2 870 207 498 (2013: R2 876 725 069) in note 8 to the consolidated and separate financial statements, respectively, was necessary.



### **Consumer receivables**

5. I was unable to obtain sufficient appropriate audit evidence regarding consumer receivables. I was unable to confirm consumer receivables by alternative means as the parent municipality did not maintain adequate records and reconciliations of payments received. Consequently, I was unable to determine whether any adjustments relating to the gross balance of consumer receivables stated at R634 018 980 (2013: R440 651 357) and R680 176 213 (2013: R470 534 427) in note 6 to the consolidated and separate financial statements, respectively, were necessary.

### **Payables from exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence regarding payables from exchange transactions as the parent municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end. The parent municipality was also unable to provide me with detailed listings of accrued leave pay as supported by approved leave application forms. Consequently, I was unable to determine whether any further adjustments relating to payables from exchange transactions stated at R689 829 602 (2013: R422 428 591) and R567 052 010 (2013: R319 319 971) in note 22 to the consolidated and separate financial statements, respectively, were necessary.

### **Service charges**

7. I was unable to obtain sufficient appropriate audit evidence regarding service charges as the parent municipality did not maintain adequate records of meter-reading books and refuse collection points. I was unable to confirm service charges income by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges income stated at R368 152 966 (2013: R330 430 628) and R368 152 966 (2013: R330 428 022) in note 30 to the consolidated and separate financial statements, respectively, was necessary.

### **Employee-related cost**

8. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding employee-related cost due to an inadequate record management system. I was unable to confirm employee-related cost by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee-related cost stated at R305 825 445 (2013: R259 244 775) and R230 286 976 (2013: R198 636 435) in note 31 to the consolidated and separate financial statements, respectively, was necessary.

### **Receivables from non-exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence regarding receivables from non-exchange transactions. I was unable to confirm receivables from non-exchange transactions by alternative means as the parent municipality did not maintain adequate records and reconciliations of payments received. Consequently, I was unable to determine whether any adjustments relating to the gross balance of receivables from non-exchange transactions stated at and R221 800 262 (2013: R211 300 891) in note 13 to the consolidated and separate financial statements, respectively, were necessary.

### **Depreciation and amortisation**

10. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding depreciation and amortisation due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation stated at R218 545 901 (2013: R217 002 790) and



R215 724 631 (2013: R214 697 263) in note 35 to the consolidated and separate financial statements, respectively, were necessary.

#### **General expenses**

11. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding general expenses due to inadequate record management. I could not confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments to general expenses stated at R152 891 611 (2013: R125 367 119) and R141 220 123 (2013: R108 677 754) in note 41 to the consolidated and separate financial statements, respectively, were necessary.

#### **Community project expenditure**

12. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding community project expenditure due to inadequate record management. I could not confirm community project expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments to community project expenditure stated at R72 313 653 (2013: R10 046 856) and R72 313 653 (2013: R10 046 856) in note 33 to the consolidated and separate financial statements, respectively, were necessary.

#### **Investment property**

13. I was unable to obtain sufficient appropriate audit evidence regarding investment property from the parent municipality due to an incomplete investment property register. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property stated at R42 519 902 (2013: R42 876 528) and R42 519 902 (2013: R42 876 528) in note 7 to the consolidated and separate financial statements, respectively, was necessary.

#### **Remuneration of councillors**

14. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding remuneration of councillors due to an inadequate record management system. I was unable to confirm remuneration of councillors by alternative means. Consequently, I was unable to determine whether any adjustment relating to remuneration of councillors stated at R20 173 891 and R20 133 891 in note 32 to the consolidated and separate financial statements, respectively, was necessary.

#### **Long term receivables**

15. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding long term receivables due to inadequate contract management. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments relating to long-term receivables stated at R9 813 438 (2013: R18 788 483) and R9 811 246 (2013: R18 788 483) in note 14 to the consolidated and separate financial statements, respectively, were necessary.

#### **Commitments**

16. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding commitments due to an incomplete contract register and contracts that could not be submitted. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments relating to capital commitments stated at R93 665 357 (2013: R10 934 931) and R75 481 915 (2013: R7 006 120) in note 46 to the consolidated and separate financial statements, respectively, were necessary.



### **Cash flow statement**

17. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding the cash flow statement for the current and prior year due to the limitations placed on my audit of various components of the financial statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the consolidated and separate financial statements was necessary.

### **Distribution losses**

18. I was unable to obtain sufficient appropriate audit evidence regarding electricity distribution losses as disclosed in note 38 to the consolidated and separate financial statements as the parent municipality did not maintain adequate records of electricity consumption and purchases. I was unable to confirm the losses by alternative means. Consequently, I was unable to determine whether any adjustment relating to electricity distribution losses stated at 611 009 629 units (2013: 170 141 75 units) in the consolidated and separate financial statements, respectively, was necessary. Additionally, the municipality did not calculate and disclose the value of water distribution losses in the current and prior years in accordance with section 125(2)(d)(i) of the MFMA. I was not able to determine the full extent of the misstatement of water distribution losses as it was impracticable to do so.

### **Long-service liability**

19. During 2013, I had been unable to obtain sufficient appropriate audit evidence from the parent municipality regarding long-service liability. I had been unable to confirm the long-service liabilities by alternative means. Consequently, I had been unable to determine whether any adjustment relating to the long-service liability, stated at R16 797 000 in note 21 to the consolidated and separate financial statements, had been necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2013 had been modified accordingly. My opinion on the current period's consolidated and separate financial statements was also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Employee benefit obligations**

20. During 2013, I had been unable to obtain sufficient appropriate audit evidence from the parent municipality regarding employee benefit obligations. I had been unable to confirm employee benefit obligations by alternative means. Consequently, I had been unable to determine whether any adjustment relating to employee benefit obligations, stated at R11 181 000 in note 16 to the consolidated and separate financial statements, had been necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2013 had been modified accordingly. My opinion on the current period's consolidated and separate financial statements was also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Restatement of assets**

21. During 2013, I had been unable to obtain sufficient appropriate audit evidence from the parent municipality regarding restatement of assets. I had been unable to confirm restatement of assets by alternative means. Consequently, I had been unable to determine whether any adjustment relating to restatement of assets, stated at R88 068 642 in the consolidated and separate statement of financial performance, had been necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2013 had been modified accordingly. My opinion on the current period's consolidated and separate financial statements was also modified because of the possible effect of this matter on the comparability of the current period's figures.



### **Aggregation of immaterial uncorrected misstatements**

22. The consolidated and separate financial statements of the parent municipality were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the consolidated and separate statement of financial performance and the notes to the consolidated and separate financial statements:
- Repairs and maintenance expenditure reflected as R86 348 124 and R72 185 093 in note 37 to the consolidated and separate financial statements, respectively, is overstated by R11 572 692.
  - Contracted services expenditure reflected as R85 894 531 and R79 387 585 in note 39 to the consolidated and separate financial statements, respectively, is overstated by R7 861 100.

### **Disclaimer of opinion**

23. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **Emphasis of matters**

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainties**

25. With reference to note 47 to the consolidated and separate financial statements, the municipality is involved in a legal dispute as to the validity of an electricity maintenance contract. The municipality is disputing the validity of the contract as it believes the contract to be invalid. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the consolidated and separate financial statements.

### **Restatement of corresponding figures**

26. As disclosed in note 49 to the consolidated and separate financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2013-14 in the annual financial statements of the parent municipality and the municipal entity at, and for the year ended, 30 June 2013.

### **Going concern**

27. Note 52 to the consolidated and separate financial statements indicates that the group incurred a net loss of R203 941 453 during the year ended 30 June 2014. This condition, along with other matters as set forth in note 52 and the bank overdraft of R43 927 168 (2013: R 25 371 659) and R43 869 959 (2013: R32 319 334) as per note 3 to the consolidated and separate financial statements, respectively, indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **Unauthorised expenditure**

28. As disclosed in note 54 to the consolidated and separate financial statements, unauthorised expenditure to the amount of R446 684 577 (2013: R140 786 508) and R434 290 907 (2013: R137 029 648), respectively, was incurred mainly due to overspending on the approved budget votes.



### **Irregular expenditure**

29. As disclosed in note 56 to the consolidated and separate financial statements, irregular expenditure to the amount of R70 661 039 (2013: R4 258 634) and R66 884 679 (2013: R3 310 194), respectively, was incurred, mainly due to non-compliance with the supply chain management requirements in respect of procurement transactions. The full extent of the irregular expenditure is still in the process of being determined.

### **Fruitless and wasteful expenditure**

30. As disclosed in note 55 to the consolidated and separate financial statements, fruitless and wasteful expenditure to the amount of R33 611 078 (2013: R13 076 793) and R31 557 459 (2013: R11 302 219), respectively, was incurred, mainly due to interest incurred on the overdue Eskom account of the parent municipality.

### **Material impairments**

31. As disclosed in note 13 to the consolidated and separate financial statements, a provision for impairment of debtors amounting to R197 633 840 (2013: R183 083 542) and R213 968 988 (2013: R199 762 513), respectively, has been made with regard to irrecoverable receivables from non-exchange transactions. In addition, as disclosed in note 6 to the consolidated and separate financial statements, a provision for impairment of debtors amounting to R432 783 080 (2013: R349 795 611) and R411 350 490 (2013: R338 276 910), respectively, has been made with regard to irrecoverable consumer debtors.

### **Additional matter**

32. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

33. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

34. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities or objectives presented in the annual performance reports, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

35. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities or objectives presented in the annual performance reports of the municipality and the entity for the year ended 30 June 2014:
- Development priority 1: Social and human development, on pages x to x
  - Development priority 4: Efficient administration and good governance, on pages x to x



- Objective 4: Operations, on pages x to x
- Objective 5: Customer services, on pages x to x.

36. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
37. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities or objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
38. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
39. The material findings in respect of the development priorities or objectives are as follows:

#### **Development priority 1: Social and human development**

##### **Usefulness of reported performance information**

40. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported objectives, 40% of the reported indicators and 100% of the targets were not consistent with those in the approved *Service delivery budget implementation plans* (SDBIPs). This was due to the fact that the municipality did not provide training on performance information planning, management and reporting.
41. The FMPPi requires the following:
  - Performance targets must be specific in clearly identifying the nature and required level of performance. All (100%) of the targets were not specific.
  - Performance targets must be measurable. I could not measure the required performance for all (100%) of the targets.
  - The period or deadline for delivery of targets must be specified. All (100%) of the targets were not time bound.

This was because management was not trained in the requirements of the FMPP. The planned targets were not included in the annual performance report; only the achievements were included.

##### **Reliability of reported performance information**

42. The FMPPi requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements, lack of monitoring of the completeness of source documentation in support of actual achievements, as well as lack of frequent review of the validity of reported achievements against source documentation.



## **Development priority 4: Efficient administration and good governance**

### **Usefulness of reported performance information**

43. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. All (100%) of the reported objectives, 100% of the reported indicators and 100% of the targets were not consistent with those in the approved SDBIPs. This was due to the fact that the municipality did not provide training on performance information planning, management and reporting.

44. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. All (100%) of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for all (100%) of the targets.
- The period or deadline for delivery of targets must be specified. All (100%) of the targets were not time bound.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 62% of the indicators were not verifiable.

This was because management was not trained in the requirements of the FMPPI. The planned targets were not included in the annual performance report, only the achievements.

### **Reliability of reported performance information**

45. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the municipality could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

## **Objective 4: Operations**

### **Usefulness of reported performance information**

46. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 67% of material targets relating to the core mandate of the entity were not specific.
- Performance targets must be measurable. We could not measure the required performance for 67% of the material targets relating to the core mandate of the entity.



- The period or deadline for delivery of targets must be specified. A total of 67% of the material targets relating to the core mandate of the entity were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 67% of the material indicators relating to the core mandate of the entity were not well defined.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. A total of 67% of the material indicators relating to the core mandate of the entity were not verifiable.
- Indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. All (100%) of the material indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the service delivery agreement.

47. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual performance and service delivery agreement. The service level agreement has not been reviewed since the 2005-06 financial year to ensure that the performance measures put in place are relevant to the current circumstance of the entity.

#### **Reliability of reported performance information**

48. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements.

#### **Objective 5: Customer services operations**

##### **Usefulness of reported performance information**

49. Section 121(4)(d) of the MFMA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 75% of all planned indicators and targets specified in the service delivery agreement for the year under review. This was due to a lack of review of the service delivery agreement to reflect the existing and current circumstances of the entity.

50. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 75% of the material targets relating to the core mandate of the entity were not specific.
- Performance targets must be measurable. We could not measure the required performance for 75% of the material targets relating to the core mandate of the entity.
- The period or deadline for delivery of targets must be specified. All (100%) of the material targets relating to the core mandate of the entity were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 75% of the material indicators relating to the core mandate of the entity were not well defined.



- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 75% of the material indicators relating to the core mandate of the entity were not verifiable.
- Indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 50% of the material indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the service delivery agreement.

51. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual performance and service delivery agreement. The service level agreement has not been reviewed since the 2005-06 financial year to ensure that the performance measures put in place are relevant to the current circumstance of the entity.

#### **Reliability of reported performance information**

52. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations we considered necessary to satisfy myself as to the reliability of the reported performance information. This was because actual achievements for the year were not reported in the annual report and could not be audited for all the targets of the performance information.

#### **Additional matters**

53. I draw attention to the following matters:

#### **Achievement of planned targets**

54. Refer to the annual performance reports on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities and objectives reported in paragraphs xx to xx of this report.

#### **Unaudited supplementary information**

55. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

#### **Compliance with legislation**

56. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

#### **Annual financial statements and annual reports**

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets and liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements



receiving a disclaimer audit opinion.

58. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

#### **Expenditure management**

59. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
60. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
61. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Consequence management**

62. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
63. Irregular and fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Asset management**

64. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
65. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Audit committee**

66. The performance audit committee did not submit to the council, at least twice during the financial year, an audit report on the review of the performance management system, as required by regulation 14(4)(iii) of the *Municipal planning and performance management regulations* (MPPMs).

#### **Procurement and contract management**

67. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded and quotations were accepted in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the bid and quotation documents selected for testing could not be obtained.
68. Goods and services with a transaction value of below R200 000 were in certain instances procured without obtaining the required price quotations and in other instances sufficient appropriate audit evidence could not be obtained that the required price quotations were obtained, as required by regulation 17(a) and (c) of the *Supply chain management regulations* (SCM regulations).
69. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).



70. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
71. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the *Preferential procurement regulations* (PPR).
72. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
73. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
74. SCM officials and other SCM role players who had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).
75. Awards were made to providers whose directors are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44.
76. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
77. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
78. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
79. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the CIDB and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
80. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
81. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and its regulations.
82. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
83. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
84. Sufficient appropriate audit evidence could not be obtained that invitations for competitive



bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

85. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
86. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
87. Contracts were awarded to and quotations were accepted from providers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of SCM regulation 38(1)(c).
88. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to or accepted from providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

#### **Human resource management**

89. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the MSA.
90. The municipal manager and a manager directly accountable to municipal manager were appointed without submitting a disclosure of financial interests, in contravention of regulation 4 of the *Municipal performance regulations for municipal managers and managers directly accountable to municipal managers*.
91. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor the measures and evaluate performance of staff, in contravention of section 67(d) of the MSA.
92. The municipal manager and a senior manager directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of MSA.

#### **Strategic planning and performance management**

93. The annual performance agreements for the municipal manager and the chief financial officer are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan, as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA, because performance agreements were not signed.
94. The annual performance report for the year under review did not include
  - an evaluation of the performance of each external service provider and
  - a comparison of the performance with set targets and a comparison with the previous financial year and
  - measures taken to improve performance, as required by section 46(1)(a), (b) and (c) of the MSA.

#### **Revenue management**

95. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.



## **Environmental management**

96. The municipality operated one waste disposal site without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008).

## **Internal control**

97. I considered internal control relevant to my audit of the financial statements, predetermined objectives and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion and the findings on predetermined objectives and compliance with legislation included in this report.

## **Leadership**

98. Key management positions were vacant during the year under review. Management did not implement effective human resource management to ensure that competent and sufficiently skilled officials are appointed and performance is monitored.
99. The leadership did not always take timeous and adequate action to address weaknesses in the finance and SCM directorate, which resulted in non-compliance with applicable legislation and gave rise to fruitless and wasteful and irregular expenditure. Integrity and ethical values were not adequate to prevent material irregular expenditure and to set the standard for sound corporate governance.
100. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evidenced by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
101. The leadership did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of ensuring proper records management, maintaining an asset register and preparing the annual financial statements.

## **Financial and performance management**

102. Management did not fulfil their oversight responsibility with regard to performance information because they did not regard it as a high priority. Lack of adequate training on performance information planning, management and reporting also contributed to performance information that is not reliable and useful.
103. Inadequate document management procedures at the municipality resulted in limitations of scope during the current and previous year audits. As a result, significant difficulties were experienced in respect of the availability of information.
104. The financial statements were subject to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality mainly due to instability in key management positions.

## **Governance**

105. Internal control deficiencies were not identified, communicated and corrected in a timely manner. The implementation of external audit recommendations was not prioritised and also not monitored. This resulted in the prior year audit findings not being substantially addressed.



Although there was a functioning audit committee during the financial year, the audit committee did not fulfil all their oversight responsibilities because they were only functional for eight months during the year.

## OTHER REPORTS

### Investigations

106. During the 2013-14 financial year the Free State Department of Cooperative Governance and Traditional Affairs requested an independent consulting firm to conduct an investigation into certain allegations, including but not limited to misconduct and instances of governance deviations at the municipality. The investigation was still in progress at the reporting date.

*Auditor-General*

Bloemfontein

11 December 2014



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*